

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6694

BILL NUMBER: HB 1388

NOTE PREPARED: Jan 5, 2011

BILL AMENDED:

SUBJECT: White County Innkeeper's Tax.

FIRST AUTHOR: Rep. Lehe

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☐ FEDERAL

IMPACT: State & Local

Summary of Legislation: *Innkeeper's Tax Rate*- The bill authorizes the White County Council to increase the County's innkeeper's tax rate to not more than 5%. The bill provides that tax revenues from any increase must be used to promote conventions, tourism, and economic development in the county.

Commission & Promotion Fund- The bill provides for the establishment of a county promotion fund for deposit of the tax revenues and a commission to administer the fund. The bill provides for the oversight of the commission.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *Commission & Promotion Fund*- The State Board of Accounts (SBOA) would have to examine financial records of the proposed commission. Political subdivisions that are not counties, cities, or certain towns with population above 5,000 are examined by the SBOA every two years.

If the SBOA could examine the proposed commission's financial records within a day or two, the additional expenditure necessary for the SBOA to examine the commission would be minimal.

Penalty Provision: Commission members that knowingly handle funds improperly would commit a Class D felony.

Explanation of State Revenues: *Commission & Promotion Fund*- The SBOA charges political subdivisions subject to examination \$45 per day to examine financial records. A two-day examination would increase state revenues by \$90 every two years.

Explanation of Local Expenditures: *Commission & Promotion Fund-* A tax rate increase would prompt the establishment of a commission to distribute a share of the innkeeper's tax revenue for economic development or the convention, visitor, and tourism industry in the County. Commission members would be appointed by the County and the largest municipality in the County. The number of members would be determined by the County executive, however, the membership must be an odd number. Commission members would be reimbursed for necessary expenses for performing their duty.

The commission would take requests for funds from the tax revenue placed in the newly created Promotion Fund (PF). The Commission would be required to prepare and submit an annual budget of recommended funding requests to the county fiscal body. Expenditures recommended by the commission could only be made from the PF in accordance with county fiscal body appropriation.

Penalty Provision: A member of the proposed county economic development/tourism commission that knowingly approved a money transfer from the promotion fund to any entity either not lawfully qualified or for a non-permitted purpose would commit a Class D Felony.

Explanation of Local Revenues: *Commission & Promotion Fund-* The White County innkeeper's tax would generate an estimated \$181,570 in CY 2011, \$231,030 in CY 2012, and \$243,340 in CY 2013 at a tax rate of 5%. (Currently, the tax rate is 3%.) Portions of the revenue would be deposited into the newly created promotion fund and the existing lake enhancement fund based on the formulae detailed in the background section below. The following table shows the possible distribution of revenue that could occur at a tax rate of 5%.

Table. Total Revenue and Distribution at a Tax Rate of 5%			
Calendar Year	Lake Enhancement Fund	Promotion Fund	Total Revenue at 5% Rate
2011	\$108,940	\$72,630	\$181,570
2012	\$138,620	\$92,410	\$231,030
2013	\$146,000	\$97,340	\$243,340

Background Information-

Basic Methodology: The above estimates were generated using FY 2010 base collections. A 1% growth rate was applied based on the U.S. Census Bureau's County Business Patterns data for hotel/motel employment growth in White County over 2006-2008. The fiscal year estimates were then converted to calendar years.

Formulas: *Promotion Fund Share-* The amount of revenue received by the PF would equal the total amount of revenue less the amount of revenue devoted to the existing lake enhancement fund. The formula would be:

$$PF = TR - LEF$$

where:

PF is the promotion fund share,
LEF is the lake enhancement fund share, and
TR is the total innkeeper's tax revenue collected

Lake Enhancement Fund Share- The LEF would receive revenue equal to the total revenue generated by the innkeeper's tax multiplied by a ratio. The numerator of the ratio would be 3. The denominator of the ratio would be the new tax rate adopted by the County fiscal body multiplied by 100. The formula follows as:

$$\text{LEF} = \text{TR} * [3/(\text{R}_{\text{EP}} * 100)]$$

where:

R_{EP} is the increased tax rate or *ex post* rate determined by the county fiscal body.

State Agencies Affected: State Board of Accounts.

Local Agencies Affected: White County.

Information Sources: White County Treasurer's Office, U.S. Bureau of Census.

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